



The Media and Markets: How Systematic Misreporting Inflates Bubbles, Deepens Downturns and Distorts Economic Reality

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The Media and Markets: How Systematic Misreporting Inflates Bubbles, Deepens Downturns and Distorts Economic Reality

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HARVARD Kennedy School

SHORENSTEIN CENTER
on Media, Politics and Public Policy

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Beginning in 2010, there was an overwhelming consensus in the American and British media—including the elite business press—that the euro currency zone’s breakup was both inevitable and imminent. Illustrious commentators competed for the most lurid scenarios of Eurogeddon.

But guess what? Shortly after Harvard historian Niall Ferguson published a *Newsweek* cover story boldly titled “The End of the Euro” in May 2010¹, the currency began an 11-month, 24-percent rally. Not only has the euro survived and retained its value, but the Eurozone even has three more member countries today than on the eve of the crisis. An investor blinded by the elite financial media’s repeated forecasts of Europe’s impending demise would have lost a bundle. In 2013, some of the best returns on any asset class worldwide were on the bonds and equities of European countries that the press had written off.

That’s not to say that all is well in Europe. But on the most fundamental and important question—whether the euro would continue to exist as a currency—the media have been getting the story spectacularly wrong, year after year.

Just as the parade of crime and disasters on the nightly news is only a highly distorted version of the actual world, so the economic and business news is but a skewed and selective snippet of the real economy. When it comes to political or general news, we’ve long been familiar with the way in which media skew reality through sound-bite-ism, a focus on personalities and conflict, and the preference of bad news over good. Media compete for attention, editors tend to pick the simplest and most familiar narratives and templates, and reporters often don’t question their sources or dig deep into a story. Why should we believe that business and economic journalism is free of these afflictions?

The quality of business and economic reporting matters. Just as the political conversation and the conduct of election campaigns have been fundamentally shaped and altered—not always for the better—by modern media culture, so the media have an outsized effect on economic life as well. News stories drive investor behavior and influence consumer sentiment. From the work of behavioral economists like 2013 Nobel laureate Robert Shiller, we know that media-driven collective sentiment is one of the cues driving not-always-rational market trends. Media attention also affects policy debates on everything from business regulation to taxes to financial-sector bailouts.

Just as a vibrant press plays a crucial role in a healthy democracy, the media also have an indispensable watchdog role in business and economic affairs. At their best, journalists make sense of complex economic issues, dig into scandals that would otherwise go unseen, and shine light on government economic policies and their effects on businesses, jobs, consumers and

taxpayers. Without smart and critical economic reporting, society would have far fewer defenses against special interests from Wall Street on down.

This paper goes beyond the usual anecdotes of stories mishandled by the press. Instead, I use data from media content analysis to highlight the systematic mistakes that editors and reporters repeatedly make when they cover the economy. These deeply ingrained biases and distortions are categorized into five major types. First, I will look at the media's role in *inflating bubbles*, where uncritical bandwagon reporting plays an indispensable role in creating destructive crises in the market economy. Second, the same *focus on personalities and dogfights* that we know from political news systematically distorts business reporting as well. Third, media are drawn to big companies and well-known consumer brands like moths to a flame, at the expense of a substantial *invisible economy* that flies under the media's radar. Fourth, an obsession with short-term *market movements and company numbers* conveys more noise than signal, gives us dots of mostly useless and backwards-looking data instead of connecting the dots to a larger context, and takes company accounting at face value when experience teaches us not to place too much trust in those numbers. Last, a preference for bad news and worst-case scenarios often leads to *doom-mongering*, especially in times of crisis.

By focusing on these systematic mistakes and the “newsroom mechanics” that lead to distorted reporting on the economy, this paper both avoids and goes beyond the usual fixation on the media's alleged liberal or conservative political bias. In a final section, I will discuss some of the implications for journalism and propose some ways we could improve.

One final introductory note: This paper will be documented with data provided by Media Tenor, a Switzerland-based research consultancy that has assembled a 20-year database of over 110 million manually coded data points from U.S. and international print, broadcast and online media. Additional data were provided by the Pew Research Center's Journalism Project in Washington, D.C. Keyword searches in the Factiva database were used as well.²

Bandwagoning and Bubbles

“The history of speculative bubbles begins roughly with the advent of newspapers.”

– Robert Shiller, “Irrational Exuberance”³

Perhaps the most blatant and obvious misreporting in business news is the bandwagon reporting that accompanies and abets market bubbles. News flow is the crucial channel for spreading what former Federal Reserve Chairman Alan Greenspan called “irrational exuberance” from Wall

Street to enough Main Streets to sustain the bubble. It is probably no coincidence that the first modern speculative bubble—the infamous Tulip Mania of 1637—took place only a few years after the world’s earliest printed newspapers appeared in Germany and Holland, greatly facilitating the spread of information, rumor and opinion.⁴

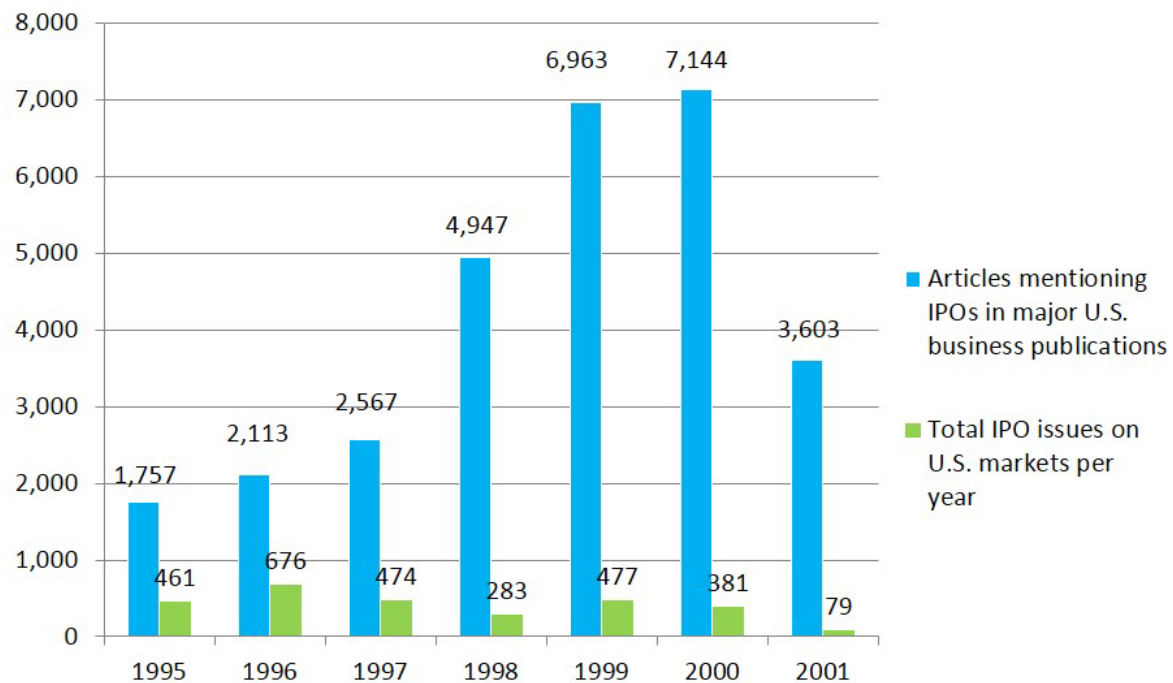
In our lifetime, there is no clearer illustration of the nexus between the media and market excess than the speculative bubble in technology stocks. During the so-called “Dot-Com Craze” from 1997 to its peak in March 2000, the NASDAQ index of technology shares rose 322 percent, only to lose all that gain and more over the subsequent two-and-a-half years. During this incredible run-up in asset prices, reading much of the business press was to enter a parallel universe of groupthink, cheerleading and hype.

At least three reporting tendencies stand out in the media’s embrace of the bubble. The most obvious was the explosion of reporting about personal finance, share prices and the technology companies whose stocks were seen as the surest way of striking it rich. During the bubble, investment advice and stories about IPOs were ubiquitous. Entire publications came and went with the bubble (Red Herring, Business 2.0), while others enlarged their personal finance sections and grew fat from advertising by the tech companies they so fawningly covered. CNBC, nicknamed “Tout TV” for its round-the-clock investment tips, vastly expanded its audience and advertising income during the bubble.

Even supposedly serious business media did their part to inflate the bubble, as can be seen by the explosive rise in reporting about IPOs on the NASDAQ and elsewhere. Even though the number of new listings on U.S. stock markets peaked in 1996 and declined substantially thereafter, reporting on IPOs in major U.S. business publications increased by an astounding 307 percent from 1995 to the peak of the bubble in 2000 (see Chart 1). On the pages of the *Wall Street Journal* during the same period, mentions of IPOs rose by 731 percent. Relative to the actual number of IPOs on U.S. stock markets, the *Journal*’s coverage increased by 900 percent.

Why is this overreporting a problem? If one assumes that the intrinsic news value of an IPO remains constant, there is little justification for a 900 percent increase in reporting. Media reporting was tracking the bubble, not the news flow. What’s more, an omnipresent news topic works just like advertising. The bubble could grow because we were inundated by investment advice and tales of IPO riches in almost every media outlet. Magnified and amplified by the press, the rising market monopolized our attention.

IPOs peaked in 1996, but reporting about IPOs more than quadrupled 1995-2000



Source: Factiva and Initial Public Offerings: Updated Statistics (Jay R. Ritter, Sept. 25, 2013)

CHART 1: Contrary to actual IPOs—which peaked in 1996—the frequency of reporting about IPOs skyrocketed until the bubble burst in 2000. Data: Factiva keyword search; Jay R. Ritter, “Initial Public Offerings: Updated Statistics” (University of Florida, Sept. 25, 2013).

Second, much of the reporting was gushingly uncritical. Journalists quoted self-interested bank analysts as if they were neutral experts. Some of these analysts, such as Morgan Stanley’s “Queen of the Net,” Mary Meeker, or Merrill Lynch’s Henry Blodget, became business media celebrities. Unfortunately, most analysts—many of them working for the investment banks that earned fees for underwriting IPOs—turned out to be anything but trustworthy sources.

The irrational discrepancy between analysts’ “buy” and “sell” recommendations should have been a red flag to reporters: In late 1999, just a few months before the bubble burst, a mere one percent of analysts’ stock recommendations were “sell” versus 70 percent “buy.” Some analysts were caught privately trashing as “junk” the same stocks they were touting to reporters. An investigation into banks’ compensation practices discovered that analysts received higher bonus payments for “buy” recommendations than “sell” or “hold.” At least one analyst was fired by his

investment bank when he tried to downgrade a client's stock. Goldman Sachs and Merrill Lynch later settled with investigators to avoid prosecution on charges of manipulating IPOs during the bubble, including the deliberate misleading of media and investors.

Third, a credulous press regurgitated the “new era” and “this time is different” narrative so typical of bubbles. Traditional accounting rules were thrown by the wayside in favor of a “New Economy” where no-name start-ups could command billion-dollar valuations without any profit in sight. Instead of investigating how the banks and their clients had thrown decades-old underwriting rules out the window in order to hype money-losing, still-born ventures such as Webvan, eToys and Pets.com, a giddy business press cheered them on.

Bubble reporting is also a study in the power of memes and narratives. The media loved the New Economy story because it made great copy. Start-up–founding whiz kids and their rags-to-riches stories, investors hitting the jackpot with the latest IPO, and all those new gadgets and technologies with life-changing potential were terrific story material that any high-school reporter could weave into an entertaining tale. But the media's uncritical reporting during the dot-com craze is a powerful reminder that great copy is not the same as good information. Groupthink focusing on the same trite narratives can be an indicator that the important story isn't getting covered.

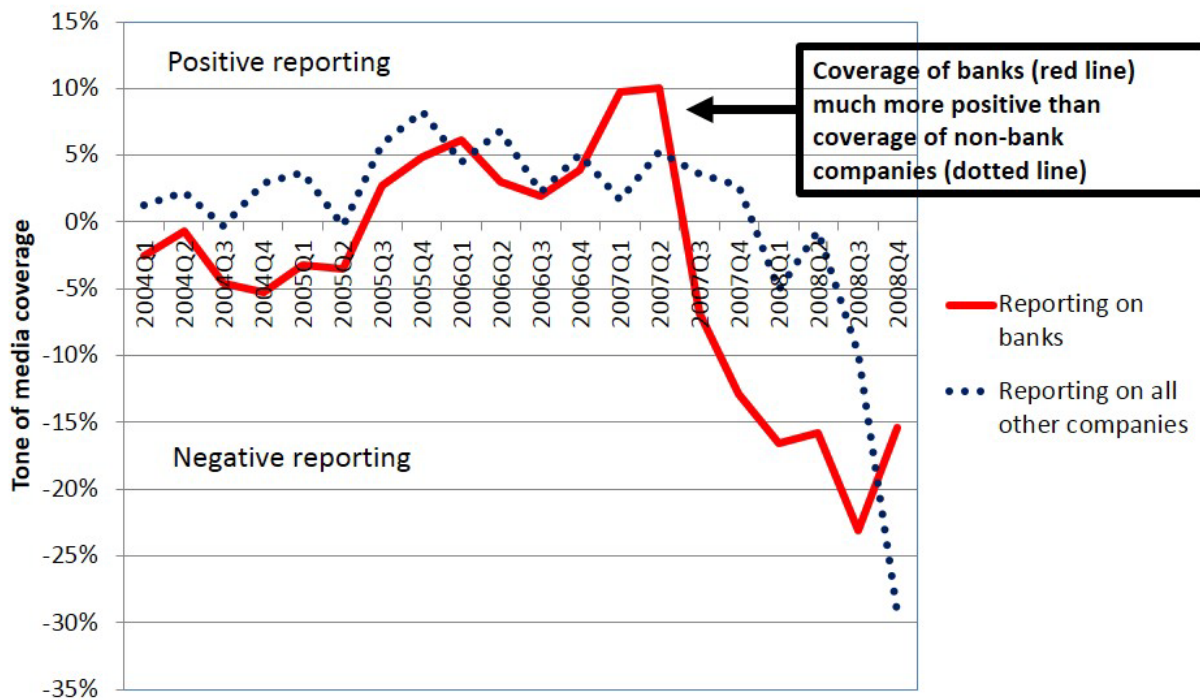
Did the media learn anything from its crucial role in the dot-com debacle? Judging by the mistakes it made during the housing and credit bubble only a few years later, the answer seems to be no.

Once again, a slew of news about homebuyers and rising real estate prices worked like advertising to draw people to the frenzy. From 2000 to the first sustained decline in housing prices in 2006, a Factiva search through major U.S. news and business publications shows a 230 percent increase in reporting on the housing market. Mentions of “house flipping” increased by 1,900 percent between 2000 and 2008. The housing bubble got its own “Tout TV” with the appearance of specialty TV shows like TLC's “Property Ladder” and A&E's “Flip This House” that gave viewers the latest tips on how to buy, fix and resell real estate. During the height of the bubble, the mantra that home ownership was the best and safest route to wealth was as ubiquitous and unquestioned as the late-1990s wisdom that technology stocks were the surest way to get rich. The idea that prices could only go up—based, among other things, on the “new era” notion that the U.S. was suddenly running out of land—once again fed a “this time is different” narrative. Perfectly timed at exactly one month before the peak of the housing bubble in the summer of 2005, *Time* magazine published a cover story titled “Home Sweet Home—Why

We're Going Gaga Over Real Estate.”⁵ While the piece did include bubble warnings further down in the text, the reporting overwhelmed with anecdotes of easy riches. There was no mention of the mortgage fraud and predatory lending investigations already going on at the time.

With very few exceptions, the concurrent rot in the financial sector also escaped the media's attention. On the contrary, the coverage of banks in the U.S. media turned unusually positive during the final phase of the credit bubble compared to the typical tone of banking coverage, as well as to other sectors of the economy (see Chart 2). In fact, the most exuberant reporting on the U.S. financial sector didn't come until the first six months of 2007, *after* the housing market had long begun to drop, the subprime market had frozen, dozens of mortgage banks had filed for bankruptcy, and larger banks such as HSBC had already reported substantial mortgage-related losses. In part, this gushing positivity reflected the fact that many banks were still posting record earnings for the previous year. But given the systematic financial shenanigans during the previous bubble—such as the off-balance-sheet accounting at Enron with its striking parallels to what later unraveled at many banks—there should have been serious red flags that those corporate numbers weren't always what they seemed. Had an enterprising financial-industry reporter looked behind the fantastic profits of predatory mortgage lenders like Washington Mutual during the bubble, the resulting exposé might have forced regulators to act earlier.⁶

Media coverage of banks unusually positive during peak of credit bubble



Source: Media Tenor analysis of 324,844 reports on U.S. companies on ABC, CBS, NBC and FOX news programs and in the Wall Street Journal between 2004 and 2008.

CHART 2: The tone of TV reporting on banks generally tends to be more negative than reporting on non-bank companies, according to two decades of media content research. In 2007, however, the news on banks soared to the most positive levels ever measured—even though the mortgage market was collapsing and the first wave of bank failures was well underway. Data source: Media Tenor analysis of 324,844 reports on U.S. companies on ABC, CBS, NBC and FOX news programs and in the Wall Street Journal between 2004 and 2008.

During the credit bubble, part of the “new era” narrative that made much of the media so uncritical was a widespread acceptance among editors that a hypertrophic financial sector was the hallmark of a state-of-the-art, post-industrial economy. Writing about less-favored sectors such as manufacturing (derided in newsrooms as old-fashioned “metal bending”) was not a good way for reporters to get space for their stories.

Today, some economists argue that we are already in another bubble, with the Federal Reserve’s ultra-loose monetary policy inflating asset prices as one stock market record chases the next. But don’t count on the media to spoil the party. Similarly, recent slowdowns in many emerging

markets seem to have caught many in the media by surprise, so invested were they in a gushing emerging-markets narrative. Many reporters and editors seem to be discovering only now that extrapolating growth rates is not a valid form of research.

Personalization and Dogfight Reporting

“The press has turned CEOs—once as unknown to the American public as their secretaries, chauffeurs and shoe-shiners—into a new category of celebrity.”

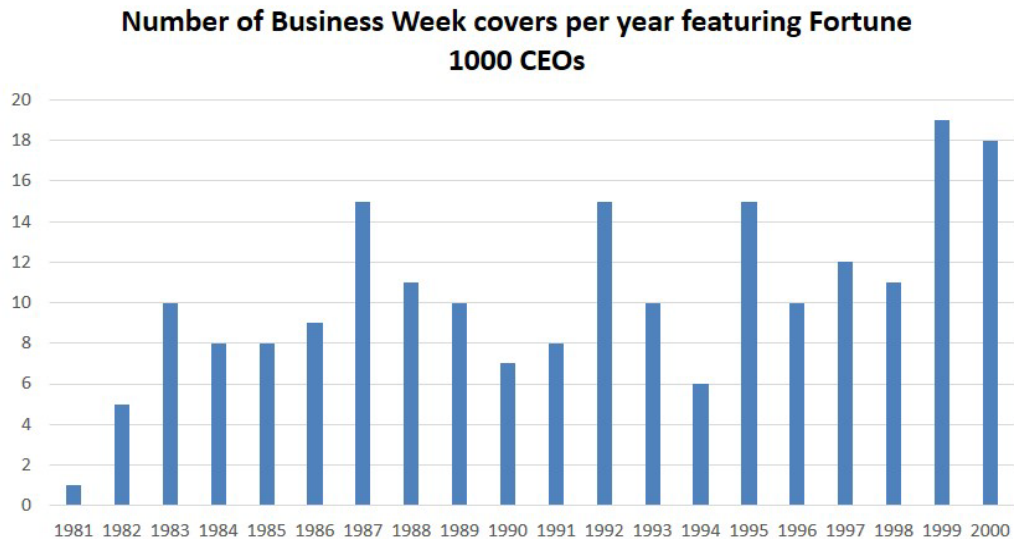
– Rakesh Khurana, “Searching for a Corporate Savior”⁷

It’s old hat: Media prefer stories that can be personalized and told as a conflict between two sides. These are convenient devices to “storify” a topic and an important part of the journalist’s craft; the problem starts when the device becomes an end in itself. As we know all too well from political reporting, the effect is that issues and policies are reduced to sound bites, while the bulk of the story focuses on the main protagonists and the play-by-play of partisan conflict. An overwhelming share of campaign news is dog-race coverage—the incessant tick-tock about who’s up and who’s down. An entire new branch of campaign journalism now specializes in crunching complex polling data. As a result, much of today’s political reporting seems to be modeled after the sports section.

But the same filter that prefers actors and their ups and downs also applies to business and economic news. It’s hard to believe now, but corporate CEOs were once as unknown to the American public as their secretaries or chauffeurs. That today’s leading CEOs are celebrities has much to do with their treatment by the press. In all of 1981, only one cover of *Business Week* featured the CEO of a Fortune 1000 company; by 1999 it was 19 (see Chart 3).⁸ Many of the CEO profiles gracing the covers of *Fortune*, *Forbes* and *Business Week* are gushing hagiographies that can be strikingly at odds with the fortunes of the company involved. That was the case, for example, with *Fortune*’s covers of Cisco CEO John Chambers in May 2000 (from April 2000 to April 2001, Cisco lost over 80 percent of its market value) and of subsequently disgraced Enron chief Ken Lay, whom *Fortune* lauded in January 2001 as running “America’s Best Company to Work For.”

Because of the personalization filter, companies headed by charismatic CEOs are more likely to get media attention than those run by bland operatives, even if the research shows that celebrity CEOs perform no better than their less exciting peers—except in the size of their compensation packages.⁹

CEOs became Business Media Celebrities in the 1980s and 1990s



Source: Rakesh Khurana, *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs* (Princeton University Press, 2002, p. 75).

*CHART 3: Personality-driven coverage of business really took off in the 1980s and 1990s. Shown here is the number of Business Week covers that featured the CEO of a Fortune 1000 company. In all of 1981, only one cover featured a CEO. By the end of the 1990s, the number was close to 20. Source: Rakesh Khurana, *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs* (Princeton University Press, 2002), page 75.*

For a similar set of reasons, there are few corporate spectacles that get more intense media attention than the dogfights involved in mergers and acquisitions. The outsized egos, corporate behemoths, and spectacular amounts of money involved have turned mergers into catnip for editors—never mind that many of these underperform or fail outright. Daimler-Benz’ 1998 merger with Chrysler, which dominated business headlines for months and was lauded by some as a “marriage made in heaven,” turned out to be one of the costliest fiascos in global corporate history. AOL’s disastrous acquisition of Time Warner just months before the dot-com bubble burst was written up as a model for the digital future.

More recently, the filters of personalization and conflict consistently defined the media narrative of the U.S. financial crisis and its counterpart in Europe, often to the detriment of information

that might have helped us make more sense of the crisis. In the U.S., the crisis quickly became a story focused on the political dogfights in Washington. As the panic spread from Wall Street to the economy at large, data from the Pew Center's Journalism Project covering the first half of 2009 show that the biggest trigger for economic coverage by far was the government, mainly statements and actions coming from major political figures in Washington as they debated bank bailouts, stimulus packages and auto industry rescues (see Chart 4). Pew data indicates that as the story moved outside the Washington Beltway, media interest quickly declined and a smaller share of the news hole was given to the financial crisis.

Who Drove Reporting on the Financial Crisis? Triggers of Economic Coverage

February 1- July 3, 2009: Percent of Stories by Type of Trigger

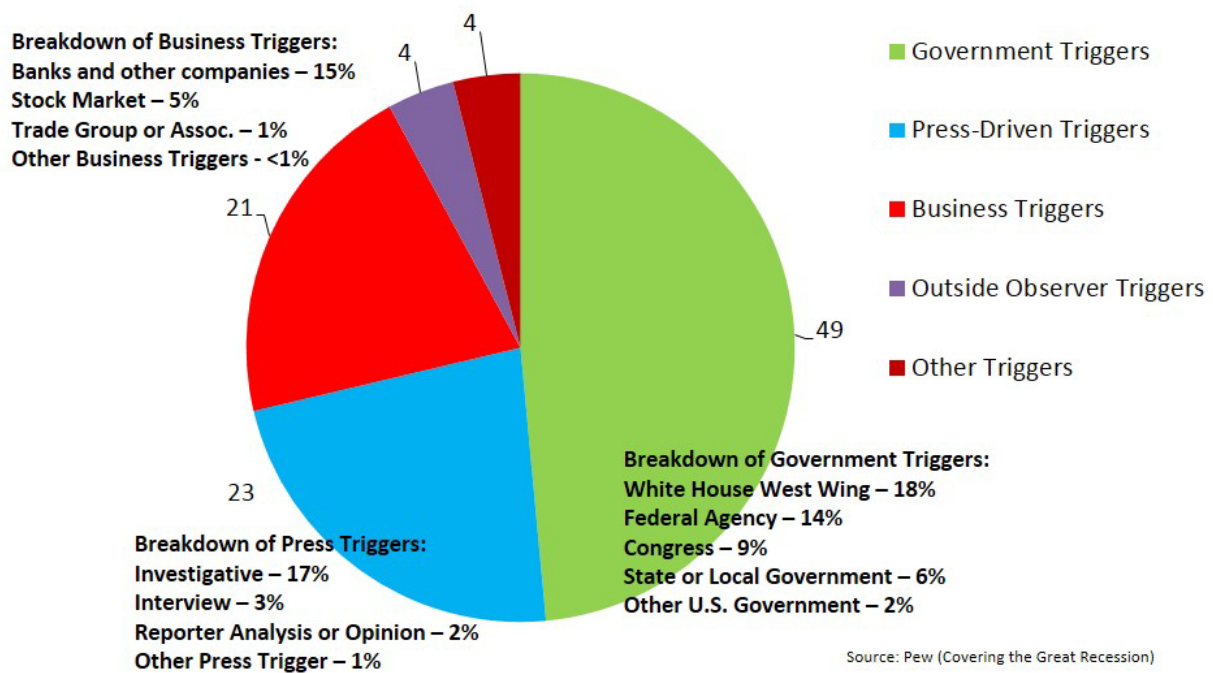


CHART 4: Half of all financial crisis reporting was triggered by politicians. With editors choosing few hooks outside Washington and Wall Street for their coverage, the media tuned into an echo chamber for the views and agendas of politicians and bankers. Data source: Pew Center Research Staff, Covering the Great Recession: How the Media Have Depicted the Economic Crisis during Obama's Presidency (Pew Center Journalism Project, Washington D.C., October 2009).

The decision to tell the story of a financial crisis through the lens of Washington politics both reduces the depth of coverage and changes the story's narrative. When the main protagonists are politicians, information is skewed by the spin politicians employ to sell their policies, score points against their opponents and ensure their reelection. Analysis makes way for dogfight reporting. The hysterics of the last 24 hours drown out any attempt at perspective over a complex and drawn-out crisis.

When a banking and financial crisis jumps from the business pages to the main news, it draws more attention—and rightfully so. But that's also when it becomes the domain of political writers and commentators, who know even less than business reporters about the financial-market mechanisms that lie at the root of the crisis as well as its resolution.

And the crisis turns into something else as it begins to be viewed through political reporters' special lenses. If you're a hammer, every problem looks like a nail; if you're a political reporter, every problem looks like a fight between the president and Congress, between Democrats and Republicans, between "stimulus spenders" and "deficit hawks." The narrative becomes one of who is "winning" against whom, and who scored highest in the final compromise. These are the standard templates of political stories. Dripping with generalities and spin, few of these stories tell us anything about the true nature of the crisis and the likelihood of its resolution.

This kind of reporting also changes the public agenda in important ways. Policy options are reduced to those proposed by the White House or other major political figures. In this intense Washington-centric narrative, for example, the TARP financial-sector bailout pushed by the U.S. Treasury quickly became the only subject of debate. Alternative policies, such as direct mortgage relief or other aggressive debt write-downs, nationalization of the worst banks, accelerated bankruptcy and bondholder bail-ins, hardly figured in the reporting. If the mass of journalists focus their attention on a tiny set of actors, they necessarily follow these actors' agendas and make it all but impossible for alternative agendas to enter the public discussion. Journalists took their cues from politicians and, to a lesser extent, financial-sector actors. Neither of these are remotely neutral sources when there are hundreds of billions of dollars in unrealized losses to allocate.

This phenomenon was more extreme in the coverage of the Euro crisis, where the media chose an even stronger narrative of personalized conflict—perhaps because Europe's crisis was even more complicated to research and explain. According to data from Media Tenor on European press coverage of the crisis, politicians were three times more likely to be the main source for print and broadcast reports on the Eurozone crisis than any other source, including economists, business

people or outside observers. An even larger number of reports had no source at all, resting solely on the words of the journalist.

Instead of connecting the dots and helping us make sense of a confusing and complicated crisis, the media narrative focused on the daily tick-tock of German Chancellor Angela Merkel versus French President Nicholas Sarkozy or Greek Prime Minister George Papandreou. The crisis was told as an epic battle between Berlin and Paris over hegemony in Europe, or between Merkel's strict Germans and Papandreou's slothful Greeks.

By focusing on political dogfights instead of the underlying issues, the media confuse more than they enlighten. It obfuscates the epic redistribution of wealth from taxpayers and savers to governments, banks and wealthy investors. Instead of helping us understand this once-in-a-lifetime economic event, much of the media gave us a high-level political soap opera.

In the process, the media managed to turn a complex credit, banking and regulatory crisis into an entertaining free-for-all of politics, partisanship and punditry. Anyone can join; no prior knowledge is required.

The Invisible Economy

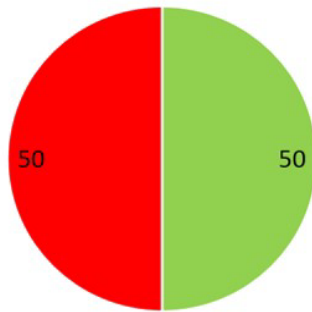
“If you're not on TV, you don't exist.”

– Ancient proverb

The economy we see in the media is only a small slice of the real economy. Editors disproportionately concentrate on a few sexy sectors such as IT and financial services, while vast swathes of the economy go virtually uncovered. Reporting is focused on big, listed corporations and popular consumer brands. Other than a handful of tech startups, the small and new businesses that create most new jobs remain all but invisible (see Chart 5).

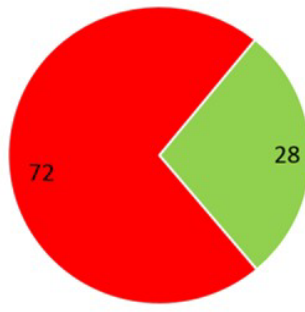
A Handful of Companies Dominate Business Reporting

Share of all Business Coverage (TV News)



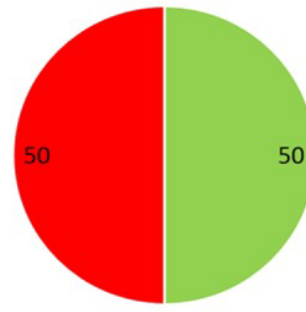
■ 44 Companies
■ Entire Rest of Global Economy

Share of Nasdaq 100 Coverage (TV News)



■ Apple, Google and News Corp.
■ All Other 97 Nasdaq Companies

Share of S&P 500 Coverage (TV News)



■ 10 Companies
■ All other 490 companies

Source: Media Tenor analysis of 8,078 reports on companies on the main CBS, NBC and Fox news programs, 1/2011-12/2013

CHART 5: Business editors focus on a tiny, select group of large corporations and familiar brands. On TV, half of all business reporting is gobbled up by only 44 companies. In the tech sector, only three companies—Apple, Google and News Corp.—accounted for almost three-quarters of all reporting. Of the 500 companies in the S&P index, a mere 10 get half of all coverage while the remaining 490 share the rest. Data: Media Tenor analysis of 8,078 reports on companies on the main CBS, NBC and Fox news programs.

On American TV news broadcasts (ABC, CBS, NBC and Fox), 22.5 percent of business coverage is on IT and media companies, even though these sectors produce only 4.5 percent of U.S. GDP, according to figures from Media Tenor and the Bureau of Economic Statistics. With 21.6 percent of company news devoted to IT and media, the *Wall Street Journal* hardly provides a more realistic picture. Another 33.2 percent of the *Wall Street Journal*'s corporate coverage—and an astonishing 39 percent of the Financial Times' coverage—is on the financial sector. In the real world, financial services generate 7.9 percent of America's GDP and 9.6 percent of Britain's (see Chart 6).

Sexy Sectors: Media are Fixated on Tech Companies and Banks

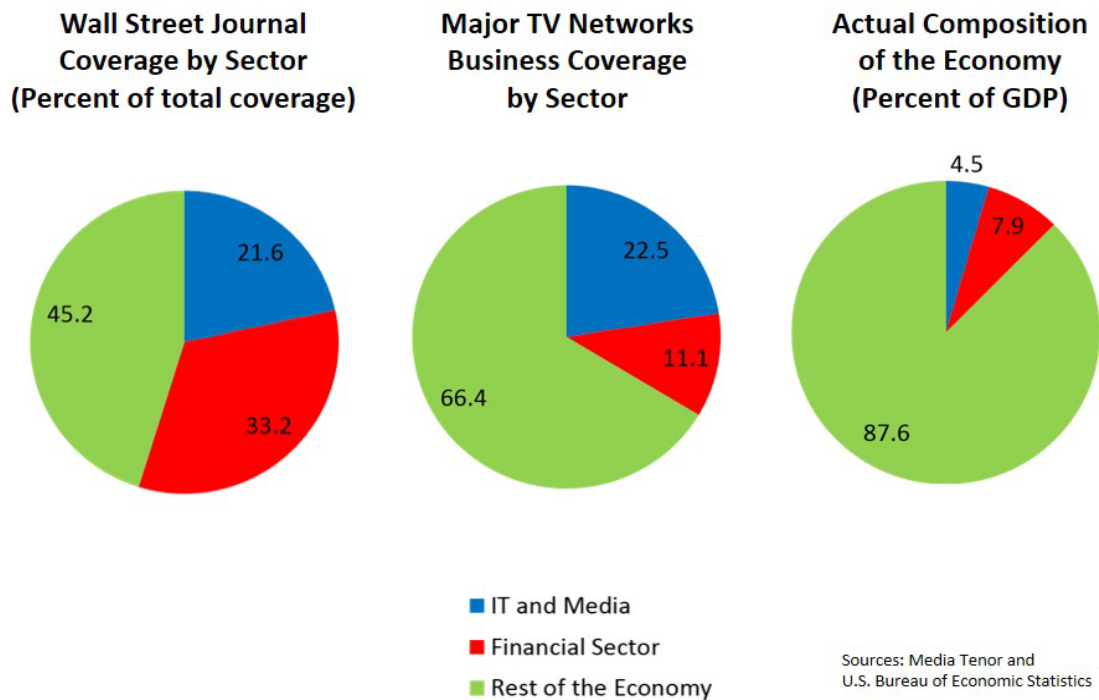


CHART 6: The media are fixated on a few sexy sectors such as IT and banks at the expense of many other large sectors of the economy. Coverage of favored sectors (Silicon Valley and Wall Street) is vastly disproportionate to their actual share of the economy. Sources: Media Tenor; U.S. Bureau of Economic Statistics.

Journalistic tastes shift over time. Before the financial crisis, many editors stereotyped manufacturing as boring and outdated “metal bending,” betraying a profound ignorance of real-life business and technology. Since then, manufacturing has made somewhat of a comeback as a reporting topic because of its emergence on the Washington political agenda as part of a post-crisis growth strategy, because of the buzz surrounding new manufacturing technologies like 3D printing, and because of the belated realization in newsrooms that an economy cannot be sustained by banks and Twitter posts alone.

That the largest corporations draw the most media attention can be a good thing if it means scrutiny of their outsized impact and power. But these companies are only one part of the economy, and not necessarily the most dynamic part. Most jobs and much innovation are generated by newly started companies that by definition start small. Nevertheless, company

coverage is driven by the familiarity of names, brands and products: It's easier to tell the story of Ford than of Valero Energy, even though both companies have roughly the same annual revenues. Another driver of reporting is ease of access to data and information. Google, Coca-Cola and McDonalds are familiar names and public companies; they court analysts and business journalists, and file quarterly reports. Cargill earns substantially higher revenues than Google, Coca-Cola and McDonalds combined, but as a privately-held concern in an unsexy industry, it flies completely under the media's radar—despite being America's ninth-largest company by revenue and probably the most powerful agricultural concern in the world. During the three-year period from January 2011 to December 2013, when the CBS, NBC and Fox evening news ran over 21,000 company news stories, only one of these reports concerned Cargill. That compares, for example, with 294 about News Corp., 175 about Google, and 136 about Solyndra, according to Media Tenor data.

On American TV network news, only 12.5 percent of business reporting has any foreign angle.¹⁰ Yet the increasing dependence of American businesses on markets, suppliers and customers abroad means that economic events abroad profoundly affect Americans as investors, consumers and employees. The bias for domestic business news thus keeps the media's audience in the dark about many of the economic forces and events that shape their lives.

What happens when large parts of the economy remain invisible? Perhaps it contributes to the mistrust between media and their audiences. For many viewers and readers, their own reality—their job, their company, their local economy—is nowhere to be found when they turn to the business news.

These distortions aren't limited to the American media. An extreme case of an invisible economy is to be found in media data from Germany, where fully 80 percent of company coverage in print and broadcast news is focused on the country's largest listed corporations where a mere 15 percent of Germans work. Huge and dynamic sectors that have shown very strong increases in employment—including health care, retail and temp agencies—fly almost completely under the German media's radar. As a result of the media's almost exclusive focus on established industries creating few new jobs, the German "jobs miracle" that has slashed unemployment from 13 percent in the late 1990s to only 5.1 percent in March 2014 finds almost no reflection in the reporting. According to Media Tenor data, German reporting on the state of the country's labor market is almost as negative today as it was during the darkest days of mass unemployment, when record joblessness produced social unrest, political crisis and a profound sense of national malaise.

There is another reason why an outsized focus on the largest and most familiar companies may be a disservice to the public. These companies are already some of the world's most powerful and well-connected organizations. Disproportionate attention to these companies can mean scrutiny, but it also raises their importance in the public mind. In the financial crisis and other situations, politicians are eager to “rescue” large, influential companies with public money and regulatory protection. Inflated media attention could strengthen the subjective notion that big companies are too big to fail and deserving of special favors. This leaves the door wide open to corporate rent-seeking by means of subsidies, market rigging and regulatory capture. It also favors established companies to the detriment of newer ones and the jobs, innovation and competition they bring.

Numbers and Noise

“The media must tell you what the markets have done and what they might do. This is entertaining, but irrelevant.”

– Henry Blodget, former stock analyst turned financial journalist¹¹

Business reporting inundates us with market numbers—this stock is up, that currency is down. For many news programs on television or radio, a lengthy market report is the most prominent item of business coverage. Yet all but a few of these numbers are noise, not signal.

Most daily market information is utterly meaningless to anyone but a day trader. As any experienced investor knows, markets can rarely be predicted, and their daily moves are mainly random. The past performance of an asset or fund manager has no predictive power for the future. Thus, a business magazine's report on the “Ten Hot Stocks for 2014” is meaningless entertainment, as are the omnipresent and tedious bull-versus-bear debates. The *Economist's* panicky October 1, 2011, cover story on the global economy, which had the words “Be Afraid” superimposed on a cover image of a galactic black hole, hit the newsstands literally the same day that the market bottomed; on the next day of trading, global stocks began a sustained two-year rise of over 45 percent. If Wall Street's smartest fund managers cannot, on average, outperform the market, the idea that journalists can do a better job predicting the future seems a little silly.

Editors love predictions. Much of the time, their timing couldn't be worse.



Shortly after Niall Ferguson's cover story, the euro began an 11-month, 24% rally.

Last time we checked, it was still around and even had 2 new members.



One month later, the U.S. housing bubble popped.

CHART 7: Editors love to make bold predictions. Most of the time, their timing couldn't be worse.

The persistent disconnect between journalists' predictions and market outcomes has one major exception: The media's flood of misinformation is so powerful in shaping attitudes that reporting trends—even if they're wrong or present no new information to investors—actually *cause* market moves as retail investors react to what they hear through the media.¹² That's why some investment managers now use stock trading algorithms based on automated media content analysis. But since journalists have no special knowledge about an asset, the media's impact on the price of a specific stock is only a temporary herding effect that disappears over time, and has no relevance for the buy-and-hold investor.

Just as meaningless are many of the explanations we're given for daily market movements. Because random market movements have no news value in themselves, a reporter must imbue them with meaning. So-called market analysts, whom journalists often contact for quotes, happily offer explanations when a simple "I don't know" would be much more honest. As happens so often in journalism, coincidence is mistaken for causality—and so a news event of the day is held up as the cause of investor sentiment. As a result, perfectly normal trading volatility is imbued by the media with a drama, meaning and predictive power that it does not have.

A corollary of the speculative reason behind market movements is the exaggeration that routinely turns a minor blip into a news event. To create a sense of drama and newsworthiness, many editors and reporters avoid boring words like "rise" or "decrease," much preferring "soar," "spike", "plummet," "crash" or "collapse." Too often, the "soaring" and "plummeting" turns out to be no more than a market blip. Bloomberg is one of the few media organizations with strict editorial guidelines censuring these loaded words.

The use of corporate reporting data is also problematic. For one, story selection is to some extent driven by availability of data; public companies that publish quarterly earnings reports and are covered by analysts are much easier and more frequent reporting targets than privately held firms with less transparency—even if they're of similar size and potentially just as interesting. Second, as we've seen during the tech bubble, the credit bubble, the Enron accounting scandal, as well as other scandals involving accounting firms, rating agencies and other companies, corporate numbers often aren't what they appear to be. Therefore, reporting on the latest corporate earnings or bank balance sheets is of questionable information value without additional research.

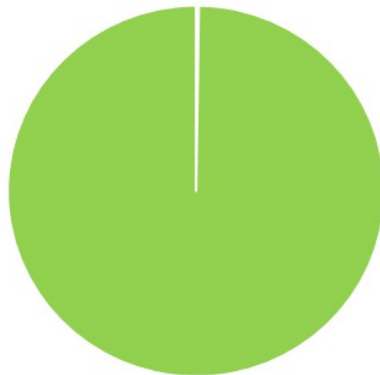
Thus, when the *Wall Street Journal* and the *Financial Times* spend 33 and 39 percent of their respective corporate coverage on the financial sector, that might be excessive compared to the sector's much smaller role in the overall economy. Yet this bias is hardly a surprise for business

papers based in the world's two leading financial capitals. What seems indefensible, however, is that only about 0.2 percent of all their reporting on the financial-sector and other companies has accounting practices as its subject, according to Media Tenor data—even though these practices lie at the root of financial crises, continue to be an uncertainty factor holding back the global recovery, and are probably the greatest cancer in the business world today (see Chart 8). Much of the time, these and other publications are giving us all the numbers except the ones we really need.

We know that corporate accounting is often wrong, but don't investigate

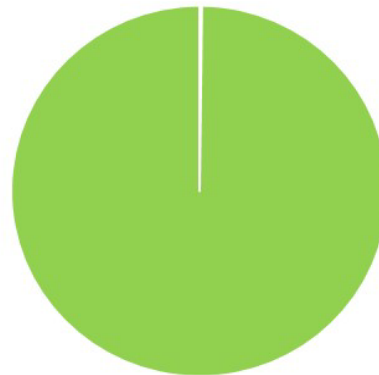
**Share of Accounting Stories
in Company Coverage
(Financial Times)**

0.23%



**Share of Accounting Stories
in Company Coverage
(Wall Street Journal)**

0.19%



Source: Media Tenor analysis of topic structure in FT and WSJ company coverage

CHART 8: Corporate accounting practices have been at the root of so many scandals, bubbles and crises—above all, in the financial sector—that journalists should be more than skeptical when looking at company numbers. Yet even in the elite business press with its emphasis on financial sector companies, only about two-tenths of one percent of company coverage has accounting practices and/or corporate reporting as its subject. Data: Media Tenor analysis of topic structure in Financial Times and Wall Street Journal company coverage.

Third, corporate numbers at best only describe the past. Media reports that delve into share prices and the latest quarterly results, perhaps embellished with a few quotes from analysts covering the company, tell us next to nothing about a company's future. Value drivers that would

tell us much more about the health and fortunes of a company, like innovation, product pipeline, customer relationships and human resources are harder to report and analyze, let alone “storify.”

Doomsday

“Many confused journalists have echoed the narrow self-interest of exposed capital-market investors.”

– Harald Hau, University of Geneva economist¹³

If it bleeds, it leads. For all the corporate cheerleading, bubble-driving, and CEO hero-worshipping we often find in the business press, the media also tend to exaggerate when the news is bad. Television stock reports turn market dips into “carnage” for the sake of news value, every slowdown in the economy comes with predictions of crashes and recessions, worker layoffs get bold headlines while the slow trickle of new hires often escapes attention. The 1987 “Black Friday” drop of 22 percent in the Dow Jones was a significant decline, but the flood of knee-jerk comparisons to 1929 and predictions of a multi-year recession proved entirely wrong. The Dow recovered quickly enough to end 1987 with an annual gain, and no wider economic impact of the crash was felt.

Unlike the apocalyptic predictions that accompanied the 1987 “Black Friday” stock-market crash, the tone of press coverage during the darkest days of the 2008-2009 financial crisis seemed more appropriate. But was it? Some commentators and economists argue that the media didn’t panic enough, contributing to policies that weren’t drastic enough (e.g. not enough fiscal stimulus and deficit spending).¹⁴ Others argue that the media’s near-total pre-crisis ignorance of financial-sector rot was matched only by its obsession with worst-case scenarios (“global meltdown,” “another Great Depression”) once the banking crisis hit. By reporting the crisis as if it were a repeat of the misery and wrenching upheavals of the 1930s, the media may have worsened an already paralyzing climate of fear among consumers and businesses.

This argument is difficult to decide, since we don’t have the counterfactual of what different coverage and different policies would have achieved. We do know, however, that various actors’ scenarios of impending catastrophe, taken up and amplified by the media at various points during the crisis, so coincided with these actors’ own interests that it is difficult to take all their statements at face value. Politicians and administration officials could only sell their policies to the public if they painted the alternative in the most cataclysmic colors including warnings of civil unrest and martial law, as administration officials allegedly did during negotiations with Congressional leaders over the TARP program in September 2008. During various financial-sector

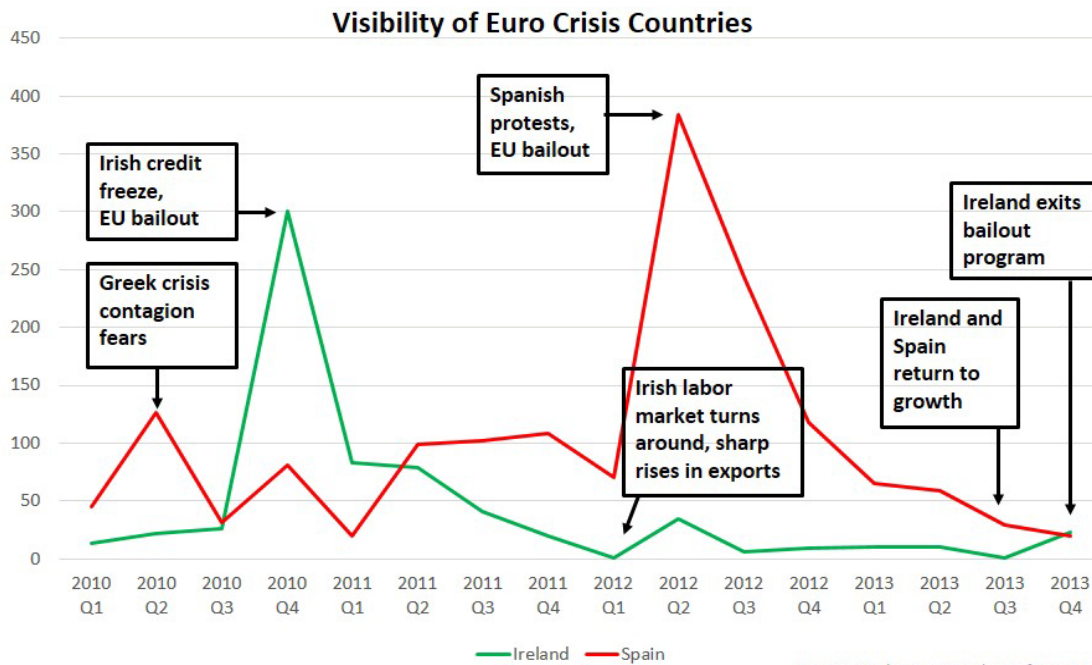
bailout debates on both sides of the Atlantic, bank and hedge fund representatives gave shrill warnings of global meltdowns and massive “contagion” if governments and central banks did not step in to assume the sector’s private debts. Most of the policies rushed through parliaments in this atmosphere of extreme emergency were highly beneficial to the financial sector and large investors, especially compared to the alternatives that were or could have been on the table.

Perhaps no other economic story in recent memory has been accompanied by as much doom-mongering as the continuing saga of the euro currency union. The U.S. and U.K. press have been keen to predict “The Decline and Fall of Europe (and Maybe the West),” as *Time* splashed on the cover of its August 22, 2011, issue.¹⁵ Announcing the imminent collapse of the euro has been a media sport since at least 2010, and columnists including *The New York Times*’ Paul Krugman continue to tell their audience it’s about to happen. Going by the editorial pages of elite business media such as the *Financial Times* and *Wall Street Journal*, it’s a surprise the euro still exists today, let alone that it has three more member countries than before the start of the crisis. Lucky was the investor who ignored the “serious” business press.

Several editorial mechanics are at work here. Once again, coverage of the euro crisis is a study in the power of ideas and narratives. Scenarios of European decline and collapse make for powerful and entertaining story-telling and speculation. In various permutations—from demographic and cultural to political and economic—the meme of Europe’s demise has been catnip for American editors and pundits since long before the crisis. The British press alone has more than a century’s experience of bashing the Continent. The phenomenon finds its mirror image in the French and German media meme of America’s downfall, disgrace and self-destruction, as told again and again over the years in countless schadenfreudian cover stories in *Spiegel*, *Stern* and other Continental magazines. Whenever crisis hits either Europe or the U.S., these narratives stand ready to have the latest details plugged in.

The second issue is selective reporting. By paying so much attention to market falls, emergency summits and street protests in Athens and Madrid, the media naturally emphasize signs of crisis over signs of normalcy or recovery. Countries where the crisis flares up dominate the news; once the worst is over, countries disappear from the news. Ireland, Iceland and the Baltic states made crisis headlines early on, only to become all but invisible as they recovered. Without fresh bad news, reporters quickly lost interest in Greece and Spain. This is a normal state of affairs in journalism, but it severely distorts our picture of reality. We’re inundated with crisis reportage, while both the reality and precise mechanisms of recovery are blocked out (see Chart 9).

We See Euro Member Countries in Crisis – But Their Recoveries Remain Invisible



Source: Media Tenor analysis of major TV news programs in the U.S., U.K. and Germany 2010-2013, by quarter.

CHART 9: The only thing we see is the crisis. Countries like Greece, Spain, Ireland and Italy made the news whenever markets shook and street protests provided telegenic images. Their subsequent recoveries did not interest journalists. This chart shows the media presence of Ireland and Spain during the Euro Crisis. Close to 100% of these reports were negative, and both countries disappeared from the news as soon as the hottest phase of their crises were over. This may make sense to editors, but the effect is that audiences only see European countries in crisis and remain clueless about Europe's recovery. Source: Media Tenor analysis of major TV news programs in the U.S., U.K. and Germany 2010-2013.

The third problem is similar to the bubble-reporting phenomenon of using biased stock analysts. Once again, reporters are quoting bank analysts, hedge fund managers and politicians who have a large stake in the fight over crisis resolution policies. Hedge fund chiefs and the economists who work for them regularly get space for their op-eds on the pages of the *Financial Times* and other media outlets. Many of them use this opportunity to make noisy predictions of contagion and market meltdown if the bailout and debt mutualization policies from which hedge funds and other private investors stand to benefit aren't adopted. When looking at the issue of bias and self-interest, we should also consider that market crashes and high volatility are investment

opportunities for hedge fund managers; expecting a crash but not getting it, many hedge funds lost large amounts betting against European sovereigns. Yet these are the same people who, as regular guest contributors to the elite financial press, have played an outsized role shaping the debate about the policy response to the financial and euro crises.

Similarly, bank CEOs and the politicians (including central bankers) seeking to protect “national champion” banks and their bondholders from having to write down debt routinely give the shrillest warnings of meltdown and contagion whenever the issue of bailouts is discussed. When the crisis spread to the tiny nation of Cyprus in 2013, European Commission politicians hoping to protect investors in their own member states warned—once again—that anything less than a full investor bailout in Cyprus would cause global market mayhem. Luckily for European taxpayers, for once the finance ministers making the decision didn’t listen. Needless to say, no such mayhem occurred.

Shrill but biased warnings of global cataclysm in case bank losses aren’t shifted to taxpayers went hand in hand with editors’ natural preference for apocalyptic scenarios. “Europe on the brink of collapse” will get an immediate thumbs up from editors; “Europe muddling through” won’t even merit an article, even if the latter scenario is a hundred times more likely. A Dr. Doom like Nouriel Roubini is going to be infinitely more interesting for business editors than an expert delivering boringly nuanced analysis.

That business journalists and editors in major media centers like New York and London hobnob so closely with the financial elite also helps promote the latter’s crisis narrative. One goes to the same parties, meets in the same clubs, is perhaps married to a banker, or earns speaking fees at financial-sector events.

While we’re still not sure where the story of the financial and euro crises will end, it’s certain that the media’s version of events is highly distorted. For four years now, a currency’s predicted demise has refused to happen. And the attractiveness of the doomsday narrative will continue to make it easier for beneficiaries to lobby for bailouts by taxpayers and investor-friendly monetary policies from central banks. Here, too, the media have not done well in their watchdog role.

Concluding Observations: Can We Do a Better Job?

Many of the systematic flaws exposed in this paper do their part to undermine trust in the media. If, as we saw in the section on the invisible economy, the news show us but a tiny and selective snippet of the actual economy, much of the audience will see little connection to those parts of the

economy in which they earn their living. Should we be surprised if they turn away? In the section on personalities, we saw that the media's obsession with Washington politicians and big-name CEOs gives us the narratives of Wall Street and the West Wing while ignoring Main Street, where most of our audience lives.

In the section on bubbles, we saw how the media helped inflate the tech and housing bubbles. As long as markets are high, this kind of misreporting might make readers feel good about their 401(k)s and gather clicks—after all, who wants to have their party spoiled? But after a few of these booms have gone bust, media audiences might just catch on to the fact that most reporters are just as clueless and gullible as they are, if not more so. In the final section on doom and gloom, we saw a similar pattern of misinformation at work. Why should I trust an editorial page that has predicted the imminent breakup of the Eurozone for going on 4 years now?

The data marshalled in this paper also suggest that much of the blame game over bad reporting is misplaced. For one, it's not the Internet's fault. There was never a pre-Web "golden age" of quality business coverage. As we've seen, some of the worst excesses of bad business journalism predate the spread of online media, such as journalism's role in inflating the tech bubble and its blindness toward Enron-style accounting scams. The manufacture of the corporate CEO as a celebrity by the business magazines, and the resulting spread of personality stories masquerading as business news, was a phenomenon of the 1980s and 1990s.

During the Financial Crisis, on the other hand, it was new Internet formats like the business blog that became go-to sources of crisis coverage. Operating without the dumbing-down and storification constraints of mainstream journalism, and many of them backed by financial expertise, it was the bloggers who gave us the most consistently informative and in-depth coverage as the financial crisis unfolded. Theirs was a quality of information rarely found in the mainstream press (and if so, often buried deeply in their online offerings).

Lack of resources also can't be the problem. Some of the most conspicuous failings of business journalism took place during the tech bubble and Enron era, a time of lavish media funding. It's hard to believe now, but at the time there was so much cash flooding into journalism that money was literally no object, leading to an explosion of new business and technology magazines, waves of new hires, fat pay packages and luxurious expense accounts. Yet none of this lucre kept financial journalists from gullibly bandwagoning with the masses and writing clever little puff pieces about the whiz-kid founders of crashandburn.com. Even today, it is some of the best-paid writers at the most prestigious journals who specialize in fawning odes to corporate titans based

more on personal access than hard-hitting research. Hiring better-paid journalists is no guarantee for better journalism.

Better coverage will require knowledgeable editors and reporters who recognize the bad habits described in this paper and strive to break them.

On the editors' side, that would include greater trust in reporters' research and less pressing of material into preconceived narratives, topics du jour, and story-telling devices that become ends in themselves. With political play-by-play the evil enemy of informative, facts-based reporting, editors should be careful when they allow economic topics into the fangs of political writers and Washington bureaus. And please stop fooling your audience by letting guest writers who happen to run a hedge fund or investment bank dish out allegedly unbiased policy advice. At the very least, be more transparent about commentators who have a billion-dollar dog in the fight they're weighing in on.

For reporters, avoiding systematic misreporting will take more and better investigative skills, financial literacy and in-depth research. Journalists should obviously be cautious in their use of analysts, rating agencies and financial-sector representatives as sources; ditto for economists in academia, who are not always transparent about their financial-sector clients. Without additional research, corporate numbers should not be taken at face value. *The Financial Times* has taken some exemplary steps by giving accounting seminars to some of its reporters and hiring writers with financial-sector expertise.

One avenue for change could be the fast-emerging field of data journalism. At its best, data journalism takes the form of a ruthless empiricism that cuts through the spin, punditry and storification that drive so much of journalism today. At its worst, it's misreporting on steroids. Nate Silver's just-launched data journalism venture, fivethirtyeight.com, is a promising example of the former. Yet the reporting that made Silver's career—crunching pre-election polls for *The New York Times*—took horserace reporting to a new extreme. Largely devoid of the issues on which most of us believe elections should be decided, poll-crunching usually has more in common with baseball statistics than political journalism. Still, the *Times* broke new and important ground in giving the statistically literate a prominent place in journalism.

If data journalism means crunching data to raise the profile of facts and transparency, journalism will be the better for it. Yet if this new genre is driven by the same biases as traditional reporting (such as crunching poll data to build an even better version of horserace reporting), if it's driven

too passively by access to data (like the easily available records of public companies, allowing powerful but privately-held conglomerates to stay in the dark), and if it's plagued by the same numerical illiteracy as much of the rest of journalism (such as mistaking a correlation for a cause), then data journalism will only be a new technique by which to make the same persistent mistakes just described in this paper. The jury is still out.

The good news for media audiences is that the media landscape has never been richer. Whether on specialized blogs, at new venues for data journalism, or in the mainstream media, there will always be places to find terrific business journalism that both informs and entertains. But caveat lector: As always, you'll have to cut through a forest of persistent misreporting first.

Endnotes

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² For their inspiration, guidance and tireless support with my data requests, I am very grateful to Media Tenor CEO and founder Roland Schatz, as well as Media Tenor researchers Christian Kolmer, Racheline Maltese and Matthias Vollbracht. Above all, my thanks go to my friends at the Shorenstein Center on the Media, Politics and Public Policy at Harvard Kennedy School for making this project possible with a semester-long research fellowship, in particular to Alex Jones, Tom Patterson, Nancy Palmer and Edie Holway. My thanks as well to Adeline Lee, my research assistant at Harvard Kennedy School, for her untiring help with Internet research, Factiva searches and PowerPoint construction.

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¹² One of the most spectacular examples of media’s autonomous causal effect on asset prices was the publication of a *New York Times Magazine* cover story on Entremed, a small biotechnology company. Even though the article rehashed old news of a potential cancer therapy breakthrough that had been reported months earlier by the *Times*, CNN, CNBC and others, and had already caused a rise in Entremed’s stock upon its initial publication, the prominent placing on the *NYT Magazine*’s cover and subsequent pickup (again) by other news outlets was followed by an immediate 600 percent spike in share price, as well as a general rise in biotech shares. Described in Schuster, T. (2006). *The Markets and the Media*. Lanham, MD: Lexington Books, pp. 67f.

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